



K A N S A S

JOHN P. SMITH, ADMINISTRATOR

DEPARTMENT OF CREDIT UNIONS

KATHLEEN SEBELIUS, GOVERNOR

DATE: July 13, 2006
BULLETIN: 2006-KDCU-CUB-04
TO: Management of Kansas chartered credit unions
SUBJECT: Due Diligence

Due diligence generally refers to the process of research and analysis that takes place in advance of a new business relationship. The rationale for credit unions performing adequate due diligence is the discovery of problems prior to entering into a business relationship with a provider of products or services. One approach to due diligence is for credit unions to review and evaluate information from various sources about the new business. What follows is a suggested list with brief discussion of the purpose for use of the due diligence item.

- ✓ Check the state of their incorporation or the equivalent if a partnership or limited liability company by contacting the secretary of state to determine the business is registered and in good standing.
- ✓ If the business is regulated, obtain a certificate of good standing from their regulator.
- ✓ Check for state or federal tax liens to determine the business is a good corporate citizen.
- ✓ Contact the better business bureau in the home location of the business to ensure they handle complaints in a timely and thorough manner.
- ✓ Do a Google search on the internet to determine if any adverse information about the business has been posted.
- ✓ Perform a credit check to ensure the business has a good financial responsibility record.
- ✓ Obtain an opinion audit of their most recent financial statement and their most recent financial statements to determine there has not been significant deterioration.
- ✓ Do an on site visit to the business to check their claims and assess the corporate climate as well as verifying the details of how the product/service they are proposing will be delivered.
- ✓ Check references supplied by the business. Contact recent customers the business may have lost if any exist.
- ✓ Obtain a legal review of any agreements or contracts to ascertain they fairly allocate duties, responsibilities and benefits.

Every item need not be checked for each new business relationship. A more specialized list tailored to the specific type of business or service to be provided may be appropriate in some situations.

John P. Smith, Administrator

July 13, 2006